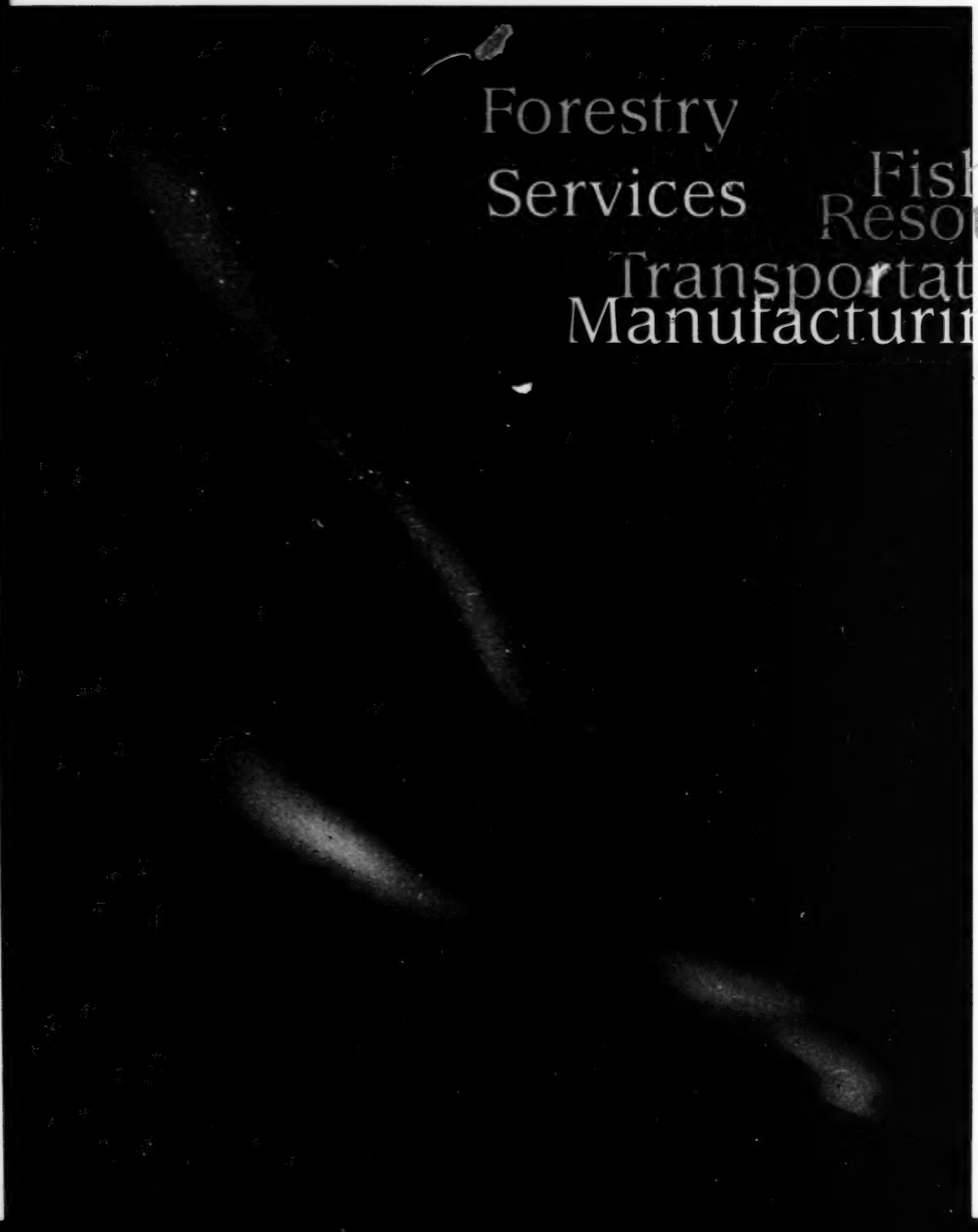
CEDF

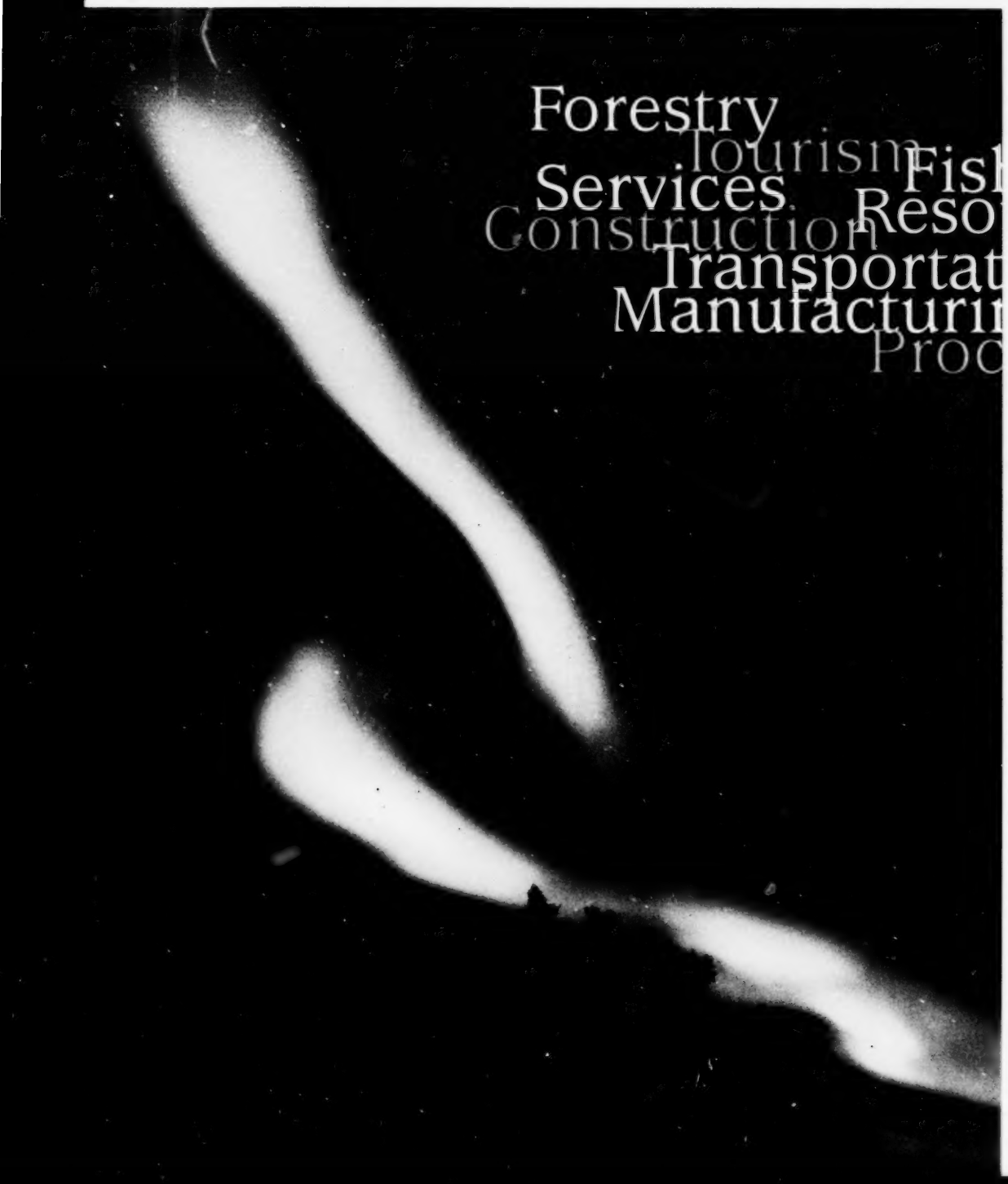
2005 ANNUAL REPORT

Investing in the North



CEDF

2005 ANNUAL REPORT



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TRANSMITTAL

Entrepreneurs
Service Fisheries
Business TEAM
Northern

CEDF

The Honourable Oscar Lathlin
Minister Responsible for the
Communities Economic Development Fund
Province of Manitoba
Room 344 Legislative Building
Winnipeg MB R3C 0V8

Dear Sir:

On behalf of the Board of Directors, I have the honour of presenting the 34th Annual Report and financial statements of the Communities Economic Development Fund for the year ending March 31st, 2005.

Respectfully submitted,

H. Westdal

Harold Westdal
Chairperson

DIRECTORS AND OFFICERS

Minister Responsible: The Honourable Oscar Lathlin

Board of Directors:

Chairperson:	Harold Westdal	Winnipeg
Directors:	Linda Ballantyne	Grand Rapids
	Rob Barbe	Gillam
	Darlene Beck	Cross Lake
	Bill Cordell	Pikwitonei
	Gavin Lawrie	Churchill
	Bob Veito	The Pas
	John R. Yellowback	God's River

Officers:

General Manager & CEO: R. Gordon Wakeling
Manager of Financial Programs & CFO: Rajinder S. Thethy

HEAD OFFICE

100 - 23 Station Road
Thompson, Manitoba R8N 0N6
Telephone: (204) 778-4138
Fax: (204) 778-4313
Toll Free: 1-800-561-4315 (In Manitoba only)

PERSONNEL

MANAGEMENT: LtoR:
Art Merasty, Raj Thethy, Gordon Wakeling

BUSINESS LOAN STAFF
IN THOMPSON: LtoR:
Art Merasty, Tracy Robertson,
Eric Sefton, Lorne Flamand

Community Program Staff Person Oswald Sawh
with Paralegal Howard Contois

FISH LOANS STAFF: LtoR:
Rheal Buors, Tom Bignell, Raj Thethy,
Leslie Bruce, Robyn Hodge

ACCOUNTING/ADMINISTRATION: LtoR:
Marsha Beckmann, Marianne Heatherington
Michelle Noel-Kelly

SWAN RIVER OFFICE
LtoR: Lee Graff, Pat Morden

CORPORATE PROFILE

The Communities Economic Development Fund is a Manitoba Crown Corporation, incorporated under the Communities Economic Development Fund Act (C155 of the Consolidated Statutes of Manitoba).

LEGISLATED MANDATE

The Object of the Fund, as stated in section 3(1) of the Act is as follows:

"The object of the fund is to encourage economic development

(a) In Northern Manitoba, as defined by the Lieutenant Governor in Council by regulation;

(b) subject to the approval of the Lieutenant Governor in Council, in the fishing industry in the province, by acting as a lending authority and administering a loan program with respect thereto; and

(c) in conjunction with financial assistance provided by the Government of Canada under any economic development program to assist aboriginal people in the province outside The City of Winnipeg;

with particular emphasis on the needs of small business enterprises and community development corporations."

Section 3(2) of the Act states it shall do so through the provision of "financial and other forms of assistance":

"The fund may provide financial assistance and other assistance, as set out in subsection (3), to assist in the establishment of new economic enterprises and the development of existing economic enterprises."

The Act defines financial assistance as:

"'financial assistance' includes a loan or guarantee, a lease of personal property or real property, the purchase or sale of shares, assets or securities of a corporation, and the underwriting of the securities of a corporation;"

Other forms of assistance are defined in section 3(3) of the Act:

"The fund may provide, with or without charge,

(a) information and advice respecting the techniques, methods and practices required for the successful administration of economic enterprises;

(b) training for individuals, including employees, managers and directors, in an economic enterprise; and

(c) conferences, seminars and other meetings for the promotion of good management practices in economic enterprises."

PROGRAMS:

The Fund provides loans and guarantees to small to medium enterprises and to the commercial fishery through three programs:

Business Loan Program

Fisheries Loan Program

TEAM

In addition, the Fund delivers programs under an MOU with the Department of Intergovernmental Affairs.

CORPORATE REPORT

In order to achieve its mandate to encourage economic development in Northern Manitoba CEDF is organized in the following Strategic Business Units.

ADMINISTRATION

Manages accounting and information systems and has responsibility for operating and capital budgets

BUSINESS LOANS

Provides loans and guarantees to economic enterprises

FISHERIES LOANS

Provides loans to the commercial fishery in Manitoba

COMMUNITY DEVELOPMENT

TEAM Micro-enterprise Program and Community Development programs including REDI

ADMINISTRATION

The objectives of the Administration unit are the maintenance of the Fund's financial and information systems to ensure timely and accurate reporting, as well as management of the Fund's budget and treasury functions. In addition, the unit manages assets and premises.

The Fund's budget has remained essentially the same since 1994. Cost of operations in 1994 was $1.389 million compared to $1.51 million in 2005 – the difference ($120,000) is the TEAM program which commenced in 2001. In fiscal 2005, budget was achieved for the 6th consecutive year. In addition to and in support of achieving budget, the section notes the following achievements:

The department revisited its asset management program and has instituted a new system of controls for fixed assets.

During the year, CEDF tendered its audit services. Following the selection process, the department worked extensively to provide the successful firm (BDO Dunwoody) with the assistance it would need to carry out this year's audit.

Treasury Management remained a priority. As interest rates remain low, the Fund has adjusted cost of funds and interest rates charged in order to remain competitive as well as function within budget.

In addition, the Fund has moved forward with several strategic initiatives, producing discussion papers related to its head office building and providing insurance services to clients.

BUSINESS LOANS PROGAM

The program provides loans at market rates to businesses unable to secure financing from other sources. In 2005, the Fund approved $2.835 million in new loans.

During the last 4 years, the Fund has struggled to meet budgeted lending activity in this program due in large part to reduced activity in the forestry sector which can be attributed to industry uncertainties due to the Softwood Lumber Dispute. Nonetheless, average lending has been $3.74 million annually during the last 4 years, up from $3.6 million in the previous 4 year period. Despite the decline in activity in the forestry sector, the program remains an important resource to the regional economy; reporting the 697 jobs maintained as a result of its financing to companies producing over $60 million in annual revenues.

The program continues to review strategic opportunities to introduce new financing instruments to meet market needs as well as to match service delivery to emerging economic sectors. In addition, the program will work with opportunities expected to emerge from the Community Development unit.

FISHERIES LOANS PROGAM

The program provides loans to commercial fishing enterprises for the purchase and repair of production assets and quota. As a natural resource based industry, commercial fishing is subject to cycles beyond the control of participants including market and environmental factors. The major issue the industry dealt with in 2005 was price declines due to the value of the Canadian dollar against the US dollar (Manitoba's principal trading market for fish products is the USA). Despite this

price decline, CEDF saw loan activity maintained at $4.01 million, down from $4.7 million in 2004, but well within previous operating and budgeted lending levels. The drop in activity was also noted in applications and in gross receipts. During the year, the Fund handled 1098 applications from fishers (2004 – 1267, 2003 – 1047). In addition, gross receipts from fishers declined by 15%.

The program remains a vital support to the industry which in turn is a valuable economic enterprise to a number of Northern and lakeside communities. The program supports 1363 fishers whose lakeside revenues exceeded $17 million in 2005. Revenues generated refer to the lakeside price for fish products paid to CEDF fishers, but do not reflect the impact of processing, freighting, and other services generated once the fish moves into the food processing system.

In the upcoming year, the Fund anticipates dealing with a number of pressures within the industry that will result in the need for changes to policy and practice. These include:

- Regulatory changes requiring new capital investment
- The increasing cost of capital assets (particularly quota entitlement costs) requiring CEDF to review its lending levels and individual loan limits (which have not increased since 1987)

During the year the Fund will also be reviewing its interest subsidy program to Young Fishers.

COMMUNITY DEVELOPMENT

CEDF delivers REDI programs to the Northeast sector of Manitoba under an MOU (originally with the Department of Intergovernmental Affairs, now Manitoba Agriculture Food and Rural Initiatives or MAFRI). The arrangement offers some advantages for both entities. CEDF derives an income totaling 20% of all expenditures (total budget for the MOU is $120,000) as well as having direct access to the programs which adds to CEDF's toolkit. MAFRI enjoys the benefits of reduced cost of program delivery to the region, direct supervision of program staff (as opposed to the remote relationship that preceded the MOU), as well as the benefits of having programs supported by a credible agency grounded within a cultural and geographic region that differs significantly from areas where the programs were developed and are delivered.

During the 4 years of the MOU, CEDF staff has worked with IGA/MAFRI staff on key issues such as community adjustment at Snow Lake and Leaf Rapids. CEDF staff has supported the creation of Community Development Corporations in Gillam, Snow Lake, Wabowden, Norway House, and Cross Lake. Support is provided to Churchill, Lynn Lake, and to other community entities. While REDI program dollars have not been available to First Nations Communities, CEDF's mandate is to work with the entire region and it has therefore extended services to First Nations clients.

TEAM is a program for micro enterprise development. The program was originally to be implemented in 3 phases, commencing in the Northeast and working across the region. Funding for phase 2 and 3 has never been received and as such the program essentially remains a one person effort with support from CEDF management and support staff. While quantifying impact of programs like TEAM is difficult due to the size of most ventures (and that they are "informal"), it clearly has had successes - identifying opportunities for local crafters and in assisting small enterprises to develop and expand. One TEAM client currently operates gift stores in her home community of Norway House as well as in Thompson and at The Forks. TEAM has assisted local crafters in Churchill to organize a crafter co-op store for 2 of the last 3 years. It helped organize a gallery at Cranberry Portage. TEAM worked with Uniquely Manitoba to organize craft exhibits for northern artists in The Pas and Winnipeg. The program would like to expand to offer retail outlets for Northern crafters in Winnipeg, but lacks the resources to do so.

In 2004, CEDF proposed the Community Partners program which would combine elements of TEAM's technical assistance and support with consultancy and with resources available under the MOU. Currently CEDF is reshaping its TEAM program and the delivery method for the MOU to prepare for a move in this direction. A discussion paper will be produced within the second quarter to discuss piloting the approach and to identify resources.

BUSINESS LOANS

Amount	Name	Purpose	Location	Interest Rate	Term in months
$40,000	3501264 Manitoba Ltd.	Minnow Business	The Pas	7.41%	36
829,632	4664583 Manitoba Ltd.	Hotel	Flin Flon	7.41%	120
150,000	Napanee Bay Fisheries Inc	Fish Station	Easterville	7.90%	6
36,965	Patrick Constant Sr.	Garbage Disposal	The Pas	8.40%	32
35,213	4562900 Manitoba Ltd.	Trucking	Durban	8.27%	36
49,000	Thomas J. Kenton Sr.	Lodge	Lynn Lake	7.77%	36
102,000	McCullough Logging Inc.	Logging/Trucking	Swan River	8.27%	48
7,605	Arron M. Kryzanowski	Sawmill	Mafeking	8.27%	18
48,500	Robert Bracegirdle	Trucking/Logging	The Pas	8.27%	36
49,500	Bernard Ballantyne	Log Hauling	Moose Lake	8.41%	36
90,900	Sigma: Ltd.	Grocery Store	Churchill	7.77%	48
41,252	Stefan Harbock	Mobile Mechanical	Shortdale	8.69%	84
49,500	Eric V. Sinclair	Trucking	Cross Lake	7.74%	3
110,000	Nuno Santos	Log Hauling	Wabowden	8.24%	36
43,600	Shea J. Sanche	Financial Services	Thompson	7.24%	120
25,000	Napanee Bay Fisheries Inc	Fish Packing Plant	Easterville	7.74%	36
36,086	Marilyn J. Wakely	Auto Repair Shop	Gillam	7.74%	48
36,000	Allan & Georgina Oman	Taxi	Churchill	7.74%	36
16,689	Kenneth L. Dayson	Trucking	Swan River	8.13%	24
65,000	Gold Trail Lodge (2003) Ltd	Hotel/Restaurant	Thompson	7.63%	48
50,000	Duck Bay Fish Packers Ltd.	Fish Packing	Duck Bay	8.20%	36
81,815	Larson R. Anderson	Used Vehicle Sales	Norway House	7.70%	36
75,000	Gillam Electric Ltd.	Electrical	Gillam	7.77%	60
143,435	Ochekwi-sipi Transportation Inc.	Transportation	Koostatak	7.70%	36
23,075	Kelvin M. Shaw	Transport/Logging	Swan River	8.21%	24
29,500	Scott Allan Craig	Lodge	Toronto	7.71%	36
102,000	Brad Wilson Enterprises Ltd.	Retail/Grocery Store	Roblin	7.71%	120
46,175	First Nation Ltd. Partnership	Forestry	Winnipeg	8.21%	6
13,298	James Chartrand	Taxi Service	Rock Ridge	8.21%	36
278,179	Amik Aviation	Air Service	Little Grand Rapids	7.68%	60
51,464	Bruce & Linda Benson	Fish Plant	Gimli	7.71%	48
28,505	Stefan Harbock	Mechanical/Welding	Shortdale	8.18%	84
50,000	God's River Development Corp.	Fishing/Tourist Lodge	God's River	8.18%	36

$2,834,888 Total Approvals - 33 Clients

HISTORICAL DATA

YEAR APPROVED	AMOUNT	APPLICATIONS APPROVED	JOBS CREATED AND/OR RETAINED
1972 - 1977	$4,534,271	216	562
1978	510,399	20	103
1979	556,459	20	92
1980	1,982,791	37	144
1981	1,180,740	34	120
1982	2,800,140	46	176
1983	2,138,275	31	138
1984	2,080,595	49	144
1985	2,326,548	63	172
1986	2,909,735	43	159
1987	3,573,294	66	215
1988	3,550,050	70	210
1989	725,243	22	31
1990	1,681,090	38	136
1991	1,737,344	30	80
1992	1,183,686	19	102
1993	5,406,375	36	120
1994	1,427,220	21	88
1995	4,811,247	51	135
1996	6,134,635	64	252
1997	4,321,829	53	198
1998	4,387,457	45	230
1999	5,188,498	41	178
2000	2,062,664	36	165
2001	2,797,419	28	170
2002	2,787,386	28	166
2003	5,174,099	39	213
2004	4,721,154	41	267
2005	2,834,888	33	359
	$85,525,531	1,320	5,125

PERFORMANCE DATA

	2005	2004	2003	2002	2001
No. of Loans Approved - Business	33	41	39	28	28
Dollar Value - Business	2,834,888	4,721,154	5,174,099	2,787,386	2,797,419
No. of Loans Approved - TEAM	1	2	6	11	6
Dollar Value - TEAM	3,000	5,038	15,536	29,911	20,565
Dollar Value - Fish Approvals	3,824,575	4,677,215	4,099,629	3,901,248	4,185,732
No. of Active Loans - Business	133	149	150	132	143
No. of Active Loans - TEAM	21	21	19	15	6
No. of Active Loans - Fish	1,207	1,191	1,153	1,119	1,098
Portfolio Value - Total	25,090,244	26,729,480	25,007,290	23,158,654	23,592,871
Bad Debt Expense - Business	473,308	619,715	417,594	443,080	399,418
As a percentage of Approvals	16.70%	13.13%	8.07%	15.90%	14.30%
Bad Debt Expense - Fish	86,662	0	0	0	100,000
As a percentage of Approvals	2.27%	0%	0%	0%	2.40%
Total Subsidy	1,514,322	1,489,762	1,493,068	1,487,145	1,500,200
Subsidy as a % of Approvals	22.73%	15.84%	16.07%	22.23%	21.42%

ECONOMIC IMPACT

Revenues
Jobs
Wages

The Fund continues to face numerous challenges to maintain its primary function and at the same time deliver a professionally managed development agency for economic expansion including the number of jobs created and maintained.

We present the following data which reflects our impact on the regional economy within our mandated area.

JOBS

Number of persons directly employed in businesses supported by Fund loans:[1]	696.5
Number of fishers supported by Fund Loans:[2]	1,363.0
Total Employment:	2,059.5

REVENUES

Total revenue of Business Loan clients:[1]	$60,541,432
Total revenues of Fisheries Loan clients (before final payments and transfer income):[2]	12,459,561
Total Revenue	$73,000,993
Direct Wages Paid[1]	$13,964,061

[1] Data is drawn from material financial statements provided by clients and from on-site observations by Fund staff during the annual account review.

[2] Data is drawn from payments provided to Fund and from active accounts within loan ledger.

AUDITORS' REPORT

BDO

Driving growth

BDO Dunwoody LLP
Chartered Accountants
and Advisors

700 - 200 Graham Avenue
Winnipeg, MB R3C 4L5
Telephone (204) 956-7200
Telefax (204) 926-7201
www.bdo.ca

To the Directors of
COMMUNITIES ECONOMIC DEVELOPMENT FUND

We have audited the statement of financial position of COMMUNITIES ECONOMIC DEVELOPMENT FUND as at March 31, 2005 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for the year ended March 31, 2004 were reported on by other auditors.

BDO Dunwoody LLP

Chartered Accountants

Winnipeg, Manitoba
June 3, 2005

STATEMENT OF FINANCIAL POSITION

March 31	2005	2004
ASSETS		
Current Assets		
Cash	**$159,579**	$113,380
Trust deposits	**10,496**	24,377
Due from the Province of Manitoba (Note 2)	**2,120,222**	1,486,239
Accounts receivable	**33,960**	56,085
Property held for resale	**191,748**	335,961
Prepaid expenses	**6,568**	8,987
	2,522,573	2,025,029
Loans receivable (Note 3)	**20,822,023**	21,662,944
Capital assets (Note 4)	**21,847**	33,245
	$23,366,443	$23,721,218
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**$936,925**	$371,813
Interest payable to the Province of Manitoba	**511,654**	596,457
	1,448,579	968,270
Commitments (Notes 5 and 6)		
Accrued pension liability	**1,647,867**	1,515,207
Advance by the Province of Manitoba (Note 7)	**20,269,997**	21,237,741
	$23,366,443	$23,721,218

Approved on behalf of the Board:

Director

Director

STATEMENT OF OPERATIONS

For the year ended March 31	2005	2004
REVENUE		
Loan interest		
TEAM	**$4,292**	$4,227
Business Program	**1,007,164**	1,185,874
Fisheries Program	**878,800**	807,884
Investment income	**35,167**	59,643
	1,925,423	2,057,628
COST OF FUNDS		
Interest paid to the Province of Manitoba		
Business Program	**540,633**	642,792
Life insurance	**73,180**	70,687
Trust line of credit	**65,549**	85,153
Fisheries Program	**553,072**	604,578
	1,232,434	1,403,210
GROSS MARGIN	**692,989**	654,418
OPERATING EXPENSES (Page 23)	**1,716,476**	1,651,267
	(1,023,487)	(996,849)
OTHER INCOME - administration fees	**69,132**	126,782
EXCESS OF EXPENDITURES OVER REVENUE BEFORE PROVISION FOR DOUBTFUL LOANS	**(954,355)**	(870,067)
PROVISION FOR DOUBTFUL LOANS - regular operations	**559,970**	619,715
EXCESS OF EXPENDITURES OVER REVENUE BEFORE SUBSIDY DUE FROM PROVINCE OF MANITOBA	**(1,514,325)**	(1,489,782)
SUBSIDY DUE FROM THE PROVINCE OF MANITOBA	**1,514,325**	1,489,782
	$0	$0

STATEMENT OF CASH FLOWS

For the year ended March 31	2005	2004
Cash Flows from Operating Activities		
Deficiency before subsidy	**$(1,514,325)**	$(1,489,782)
Adjustments for		
Amortization of capital assets	**17,383**	25,790
Provision for doubtful loans	**559,970**	674,933
Accounts receivable	**35,193**	(11,069)
Accrued interest receivable	**(143,724)**	(276,600)
Prepaid expenses	**2,419**	10,715
Accounts payable	**552,044**	78,221
Accrued interest payable	**(84,803)**	(67,027)
Accrued pension liability	**132,660**	123,293
	(443,183)	(931,526)
Cash Flows from Financing Activities		
Due from the Province of Manitoba	**(633,983)**	508,261
Advance by the Province of Manitoba	**(967,744)**	68,436
Subsidy Province of Manitoba	**1,514,325**	1,489,782
	(87,402)	2,066,479
Cash Flows from Investing Activities		
Loans receivable, net of repayments	**424,675**	(2,053,357)
Purchase of capital assets	**(5,985)**	(15,689)
Property held for resale	**144,213**	(322,939)
	562,903	(2,391,985)
Net increase (decrease) in cash and cash equivalents	**32,318**	(1,257,032)
Cash and cash equivalents, beginning of year	**137,757**	1,394,789
Cash and cash equivalents, end of year	**$170,075**	$137,757
Represented by		
Cash	**$159,579**	$113,380
Trust deposits	**10,496**	24,377
	$170,075	$137,757
Supplementary Information		
Interest paid	**$1,244,057**	$1,399,550
Interest received	**1,746,532**	1,721,385

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Actual results may differ from those estimates. The significant accounting policies used in these financial statements are as follows:

LOANS RECEIVABLE

Loans are carried at the unpaid principal plus accrued interest, less allowances for doubtful loans. Loans considered uncollectible are written-off. Recoveries on loans previously written-off are taken into income.

ALLOWANCE FOR DOUBTFUL LOANS

Business Loan Program

The loans are reviewed quarterly to assess potential impairment or loss of value. Impaired loans are defined as those which are greater than two payments in arrears and for which the value of realizable security is less than the value of the loan outstanding. In these cases, a "specific" allowance is accrued equal to the value of the potential security shortfall or impairment. In all other cases, including loans that are both current and for which there is excess security value, a "non-specific" allowance equal to 5% of the outstanding loan balance is recorded.

Fisheries Loan Program

The allowance for doubtful loans on fisheries loans and interest receivable is calculated based on the present value of future cash flows for those loans which, if they maintain their past payment history, will fail to retire their debt completely within the agreed term. The net present value (NPV) formula used for calculating the allowance for doubtful loans is recognized by the Canadian Institute of Chartered Accountants, however, it does not account for closure of a fishery or regulated reduction of production. In the event of closure of a fishery or regulated reduction of production, the NPV formula may not adequately provide for doubtful loans.

REVENUE RECOGNITION

Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired. When a loan becomes impaired, recognition of interest ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

PENSION EXPENSE AND OBLIGATION

The employees of the Fund are not members of the Civil Service of the Province of Manitoba but they contribute to, and are pensionable under, the Civil Service Superannuation Fund. In accordance with the provisions of the Manitoba Civil Service Superannuation Act, the Fund will contribute 50% of the pension payments made to retired employees. Payments to the pensioners are charged against the liability account. The current pension expense is determined on the basis of an actuarial valuation. The most recent actuarial valuation as at December 31, 2001 indicated the accrued liability is in line with the obligation forecast in the report. In fiscal years prior to 1989, the Fund charged to operations contributions to the Manitoba Civil Service Superannuation Fund which amounted to 50% of the pension payments made to retired employees. Beginning in the 1989 fiscal year, the Fund has recorded a provision to fund current service obligations. The total liability as at March 31, 2005 amounts to $1,647,867 (2004 - $1,515,207).

CAPITAL ASSETS

Capital assets are stated at cost less accumulated amortization. Amortization based on the estimated useful life of the asset is calculated on a straight-line basis as follows:

Office furniture and equipment	10 - 20%
Computer equipment	10 - 25%

FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash and trust deposits, accounts receivable, loans receivable, accounts payable and amounts due from and to the Province of Manitoba.

The financial risk is the risk to the Fund's revenues that arise from fluctuations in interest rates and degree of volatility of these rates. The Fund has established policies to manage its exposure to fluctuating interest (referred to as interest rate risk).

The Fund is exposed to credit risk that arises from the collection of loans receivable and realization of property held for resale.

All financial instruments are denominated in Canadian dollars.

The Fund does not participate in derivative financial instrument trading or foreign exchange transactions.

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF THE FUND

The Communities Economic Development Fund was established in 1971 (Ch. C155) as a Crown corporation to encourage the optimum economic development of remote and isolated communities within the Province of Manitoba. With an act revision passed in July, 1991 the objective of the Fund was set to encourage economic development in Northern Manitoba, to act as a lending authority in the fishing industry in the Province of Manitoba and to provide financial assistance to Aboriginal people in the Province outside the City of Winnipeg. The Business and Fisheries Loan Programs are administered under the C.E.D.F. Act.

2. DUE FROM THE PROVINCE OF MANITOBA

Annually, the Province of Manitoba provides a grant to cover the Fund's anticipated subsidy requirements for the year. The amount of $2,120,222 (2004 - $1,486,239) represents additional funds needed to cover the actual requirements for the year including coverage for the pension liability. The balance is comprised of the following:

	2005	2004
Department of Northern Affairs		
Subsidy (refundable)	**$(212,077)**	$(147,403)
Order in Council pending	**619,032**	53,036
Pension (unfunded)	**1,633,681**	1,502,993
Pension (funded)	**- 14,186**	12,214
Severance accrual (unfunded)	**65,400**	65,399
	$2,120,222	$1,486,239

3. LOANS RECEIVABLE

	2005	2004
Business Loan Program		
Principal	**$11,514,504**	$13,741,325
Accrued interest	**835,407**	856,748
	12,349,911	14,598,073
Allowance for doubtful loans (Note 8)	**1,381,348**	2,251,440
	10,968,563	12,346,633
Fisheries Loan Program		
Principal	**11,897,820**	11,450,794
Accrued interest	**790,237**	628,460
	12,688,057	12,079,254
Allowance for doubtful loans (Note 8)	**2,834,581**	2,762,805
	9,853,476	9,316,449
TEAM Loan Program		
Principal	**43,585**	46,751
Accrued interest	**8,395**	5,107
	51,980	51,858
Allowance for doubtful loans (Note 8)	**51,996**	51,996
	(16)	(138)
	$20,822,023	$21,662,944

The following schedule provides the gross amount of loans together with the loan allowances:

	Gross Loan Balances	**2005 Total Allowance**	Gross Loan Balances	2004 Total Allowance
Business Loan Program				
Impaired	**$1,931,718**	**$860,438**	$4,340,768	$1,738,770
Performing	**10,418,193**	**520,910**	10,257,305	512,670
	12,349,911	**1,381,348**	14,598,073	2,251,440
Fisheries Loan Program				
Impaired	**$2,834,581**	**$2,834,581**	$2,762,805	$2,762,805
Performing	**9,853,476**	**-**	9,316,449	-
	$12,688,057	**$2,834,581**	$12,079,254	$2,762,805
TEAM Loan Program				
Impaired	**$51,980**	**$51,980**	$51,858	$51,858

4. CAPITAL ASSETS

	Cost	**Accumulated Amortization**	**2005 Net Book Value**	2004 Net Book Value
Office furniture and equipment	**$178,285**	**$156,438**	**$21,847**	$33,245

5. LOAN COMMITMENTS AND CONTINGENT LIABILITIES

	2005	2004
Undisbursed balance of approved loans	**$1,451,342**	$711,169

6. COMMITMENTS

The Fund has committed to leases as follows:

Office premises - Thompson	$7,235 per month, expires July 2005
Digital mail equipment	$3,093 annually, expires April 2008
Postage scale and software	$737 semi-annually, expires February 2009

7. ADVANCE BY THE PROVINCE OF MANITOBA

	2005	2004
Business Loan Program (Note 9)	**$9,779,853**	$10,966,699
Fisheries Loan Program (Note 9)	**10,490,144**	10,271,042
	$20,269,997	$21,237,741

The Fund obtains capital for the purpose of carrying out its mandate of providing financial assistance in the form of loans and guarantees through loans provided by the Department of Finance. Term loans bear interest at the rates posted by the Department of Finance at time of issue. The Fund also has the option to draw funds on floating rates set periodically at the Royal Bank prime rate minus 3/4%. At year end, the Fund's instruments bore rates ranging from 3.50% to 6.75% with a weighted cost of capital of 4.48%.

8. ALLOWANCE FOR DOUBTFUL LOANS

The change in the allowance is accounted for as follows:

	Specific	Non-Specific	2005 Total	2004 Total
Business Loan Program				
Balance, beginning of year	**$1,738,770**	**$512,670**	**$2,251,440**	$2,219,584
Provision for the year	**465,068**	**8,240**	**473,308**	619,715
	2,203,838	**520,910**	**2,724,748**	2,839,299
Loans written-off	**(1,343,400)**	**-**	**(1,343,400)**	(587,859)
Balance, end of year	**$860,438**	**$520,910**	**$1,381,348**	$2,251,440
Fisheries Loan Program				
Balance, beginning of year			**$2,762,805**	$2,779,786
Provision for the year			**86,662**	3,222
			2,849,467	2,783,008
Loans written-off			**14,886**	20,203
Balance, end of year			**$2,834,581**	$2,762,805
TEAM Loan Program				
Balance, beginning of year			**$51,996**	0
Provision for the year			**0**	51,996
Balance, end of year			**$51,996**	$51,996

The provision for fish loan losses recorded by the Fund exceeds the value derived by the net present value formula as at March 31, 2005 by $113,020 (2004 - $577,501).

	2005	2004
Loan Loss Provision		
Per accounts	**$2,834,581**	$2,762,805
Per net present value calculation	**(2,721,561)**	(2,185,304)
	$113,020	$577,501

The commercial fishing industry is cyclical in nature and as a result, no adjustment has been made to the loan loss provision as at March 31, 2005.

9. LOAN PROGRAMS

Business Loan Program

The Communities Economic Development Fund is included under the Province of Manitoba's Loan Act Authority. Advances from the Province of Manitoba bear interest at rates established by the Minister of Finance pursuant to "The Loan Act, 2004". The advances are repayable at any time in whole or in part at the option of the Lieutenant Governor in Council.

Advances from the Business Loans Program are accounted for as follows:

	2005	2004
Advances, beginning of year	**$13,223,876**	$13,347,068
Loan advances	**2,049,840**	4,679,571
Loan advance repayments	**(2,763,378)**	(4,216,537)
Loan write-offs	**(779,037)**	(586,226)
	11,731,301	13,223,876
Unfunded allowance, beginning of year	**2,257,177**	2,223,689
Provision for doubtful loans	**473,308**	619,714
Write-offs (Order in Council approved)	**(779,037)**	(586,226)
	1,951,448	2,257,177
Net balance, end of year (Note 7)	**$9,779,853**	$10,966,699

Fisheries Loan Program

Advances to the Fisheries Loan Program are accounted for as follows:

	2005	2004
Advances, beginning of year	**$13,079,554**	12,854,437
Loan Advances	**3,547,514**	4,937,277
Loan Advance repayments	**(3,253,412)**	(4,712,160)
	13,373,656	13,079,554
Unfunded allowance, beginning of year	**2,808,512**	2,808,512
Provision for doubtful loans	**75,000**	-
	2,883,512	2,808,512
Net balance, end of year (Note 7)	**$10,490,144**	$10,271,042

Interest costs are charged on total advances of $13,373,656, which is the total portfolio including the allowance for loss portion of $2,883,512.

10. LOAN ACT AUTHORITY

Amounts authorized for advances under "The Loan Act, 2004" are as follows:

	2005
Per Schedule A of "The Loan Act, 2004"	$12,600,000
Per Schedule B of "The Loan Act, 2003"	5,516,974
Guarantee fees converted to Loan Authority	970,000
	6,486,974
Direct loans	19,086,974
Advances made during the fiscal year	5,597,354
Unused Loan Act capital available	$13,489,620

11. ECONOMIC DEPENDENCE

The ongoing operations of the Communities Economic Development Fund depends on obtaining adequate financing and funding. The Fund is dependent upon the Province of Manitoba for funding of operations.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and deposits, accounts receivable, amounts due from the Province of Manitoba and accounts payable are a reasonable estimate of the fair value because of the short maturity of those instruments. The advances by the Province of Manitoba has a market rate of return (Note 7) and is a reasonable estimate of the fair value.

The carrying value of loans receivable approximate their fair value. In the absence of readily ascertainable market values, management has estimated that fair value would not differ materially from carrying value. Factors considered in this determination include underlying collateral, market conditions, financial data and projections of the borrowers. Because of the inherent uncertainty of valuation, the estimate of fair value may differ significantly from the values that would have been used had a ready market for the assets existed.

SCHEDULE OF OPERATING EXPENSES

For the year ended March 31	2005	2004
Amortization of capital assets	**$17,383**	$25,790
Collection costs	**173,049**	89,220
Communications	**51,383**	49,431
Credit reports	**2,991**	2,613
Directors' fees and expenses	**68,201**	63,285
Government vehicles	**38,783**	41,155
Insurance	**2,723**	1,781
Legal costs	**13,785**	15,399
Office supplies and expenses	**18,499**	20,267
Pension	**167,986**	159,221
Professional fees	**24,951**	21,703
Rent and utilities	**75,240**	81,623
Salaries and benefits	**883,912**	885,757
Sundry	**32,871**	25,937
TEAM	**105,253**	120,040
Travel	**39,466**	48,045
	$1,716,476	$1,651,267

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